



County of San Diego

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January 24, 2013

TO: Supervisor Greg Cox, Chairman
Supervisor Dianne Jacob, Vice Chairwoman
Supervisor Bill Horn
Supervisor Dave Roberts
Supervisor Ron Roberts

FROM: Helen Robbins-Meyer
Chief Administrative Officer

HIGHLIGHTS OF THE GOVERNOR'S PROPOSED FY 2013-14 STATE BUDGET AND POTENTIAL COUNTY IMPACTS

On January 10th, Governor Jerry Brown unveiled his Proposed FY 2013-14 State Budget and during his press conference stated that California's budget deficit, which totaled \$26.6 billion in January 2011, has been eliminated. The Governor credited past spending cuts contained in the last two budgets and the recent approval of new taxes by California voters.

The Governor's \$98.5 billion spending plan for FY 2013-14 projects a modest economic recovery for California and increases spending by over \$4 billion from FY 2012-13. The Governor emphasized that risks still remain and he cautioned legislators about attempting to reinstate cuts that had been made in previous years.

The Governor's Proposed State Budget maintains its commitment for 2011 Public Safety Realignment which shifted lower level offenders from the state to local jurisdictions. Current program allocation formulas for realignment that were adopted as part of the Enacted FY 2012-13 Budget would continue for FY 2013-14 under the January Proposed State Budget.

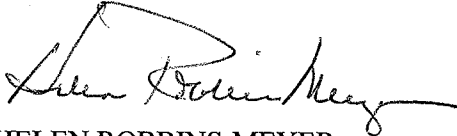
The Proposed Budget also outlines the impacts to California as a result of the implementation of federal health care reform, also known as the Affordable Care Act (ACA), adopted in 2010. The ACA would increase access to private and public health care coverage by January 1, 2014 and the Proposed Budget outlines two potential implementation options that would have programmatic and funding impacts to the state and counties. The Governor's Proposed Budget summary was lacking in specific details, however these issues will be discussed in the coming months by the Administration, the California State Association of Counties and individual counties.

Delivering on a promise made last year when his tax measure was approved by California voters, the Governor's Proposed Budget increases funding for education by \$2.7 billion. The Governor's Proposed Budget also contains the repeal of several state mandates and proposes a reserve of \$1 billion.

Historically the Governor's January Proposed Budget is the starting point for budget discussions with the State Legislature. In May, the Governor will release a revised State Budget as the Legislature prepares for budget deliberations. The State Legislature has until June 15th to pass a State Budget in advance of the end of the fiscal year on June 30.

The attached document includes highlights of the Governor's Proposed FY 2013-14 State Budget and potential impacts to the County of San Diego.

Respectfully,

A handwritten signature in cursive script, appearing to read "Helen Robbins-Meyer", written in dark ink.

HELEN ROBBINS-MEYER
Chief Administrative Officer

Attachment

cc: ACAO, CSG, FGCG, HHSA, LUEG, PSG, CNL, CLK, OSIA

GOVERNOR'S PROPOSED FISCAL YEAR 2013-14 STATE BUDGET POTENTIAL IMPACTS ON THE COUNTY OF SAN DIEGO



MISCELLANEOUS BUDGET

State Budget Deficit (*Governor's Proposed Budget Summary, Pages 1, 5-7*)

- The Governor proposes a balanced budget that includes a \$1 billion reserve.
- The State's previous budget deficit, as of January 2011, was \$26.6 billion, and this deficit was addressed by spending cuts in past Budget Acts, primarily in corrections, health and human services and education, and the new temporary revenues provided by the passage of Proposition 30.
- General Fund spending is projected to grow by 5 percent, from \$93 billion in FY 2012-13 to \$97.7 billion in FY 2013-14, with a majority of the spending growth impacting education and health care. The spending plan proposes \$138.6 billion in General Fund and special fund expenditures.
- State-supported program and service levels established in FY 2012-13 will generally continue into FY 2013-14.

Potential Risks to the State Budget (*Governor's Proposed Budget Summary, Pages 6-7*)

- The Governor's Proposed Budget is balanced by a narrow margin. Revenues from taxes preserving the budget, such as Proposition 30, are temporary and will be expiring within the next five years.
- The pace of the Nation's and State's economic recovery remains uncertain, therefore budget projections sway.
- The Governor's Proposed Budget Summary states that the federal government and the courts have hindered the State's past efforts to reduce spending and could again interfere with the successful implementation of budget actions authorized in FY 2011-12 and FY 2012-13.
- The federal government could shift costs to the State.
- Rising health care costs will continue to strain the state budget.

State's Cash Flow

- The State Controller's cash update for December 2012 notes a \$103.4 million surplus above FY 2012-13 state budget estimates, providing further evidence from the Controller's perspective that California's economy is on the mend due to increases in sales tax revenues.
- Personal income taxes in the month of December 2012 came in \$767.6 million above monthly estimates contained in the FY 2012-13 state budget, whereas corporate taxes came in \$445.9 million below those monthly estimates.

Wall of Debt (*Governor's Proposed Budget Summary, Page 7*)

- The State currently has an outstanding debt of \$27 billion in loans to schools, local government and dedicated funds from previous years. Governor Brown refers to this as the "Wall of Debt," an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade.
- By FY 2016-17, the Governor plans to have the Wall of Debt reduced to \$4.3 billion.
- The Administration proposes to lower special fund loan payments, therefore delaying repayment dates.

Suspension of State Mandates (*Governor's Proposed Budget Summary, Pages 79-80*)

- As in recent Budget Acts, the Administration continues to limit the state mandate process by suspending most mandates except those related to law enforcement and property tax collection.
- All previously suspended mandates from prior Budget Acts will remain suspended.
- The Governor's Proposed Budget Summary notes that the activities required by many mandates have become best practices that local agencies should be providing their citizens as a matter of course.
- The Governor proposes to suspend four new mandates, for which the Commission on State Mandates recently adopted Statewide Cost Estimates, for a General Fund savings of \$103.8 million in FY 2013-14, in addition to five mandates that are considered reimbursable activities by the Commission on State Mandates but for which the Commission has yet to adopt statewide cost estimates.

- The four newly suspended mandates include: the Domestic Violence Background Checks mandate, the Modified Primary Election mandate, the Permanent Absentee Voter II mandate and the Identity Theft mandate.
- The five mandates for which the Commission of State Mandates has yet to adopt Statewide Cost Estimates include: the California Public Records Act mandate, the Local Agency Ethics mandate, the Tuberculosis Control mandate, the Interagency Child Abuse and Neglect Investigation Reports mandate and the Voter ID Procedure mandate.

COMMUNITY SERVICES

Enterprise Zones (*Governor's Proposed Budget Summary, Page 145*)

- The Governor's Proposed Budget assumes the California Department of Housing and Community Development (CA HCD) rulemaking process that would establish new limits on Enterprise Zone tax credits is successful. CA HCD states that these reforms will focus incentives on the creation of new jobs and eliminate potential fraud. The County does not have any Enterprise Zones in the unincorporated area, but there are Zones within local cities.

Redevelopment Dissolution (*Governor's Proposed Budget Summary, Page 77*)

- The dissolution process of redevelopment agencies will allow for approximately \$1.6 billion to be distributed back to counties, \$1.2 billion to be distributed back to cities and \$400 million to be distributed back to special districts.
- Past projections of Proposition 98 General Fund amounts stemming from the dissolution process of redevelopment agencies can be more accurately estimated now that three Recognized Obligation Payment Schedules (ROPS) have occurred. The 2012 Budget Act projected state savings in FY 2012-13 of \$3.2 billion and \$1.6 billion in FY 2013-14, however those calculations have now been revised downward to an estimate of \$2.1 billion in FY 2012-13 and \$1.1 billion in FY 2013-14; about one-third lower than assumed.

Suspension of State Mandates (*Governor's Proposed Budget Summary, Pages 79-80*)

- As in most recent Budget Acts, state mandates not related to law enforcement or property taxes, including election-related mandates, continue to be suspended. Three election-related mandates are included amongst the nine new state mandates proposed for suspension. These include the Modified Primary Election, Permanent Absentee Voter II, and Voter ID Procedures mandates.

County Impact

- \$1.5 to \$1.8 million in lost revenue per year from previous election-related SB 90 claims, such as voter registration, absentee ballots and permanent absentee voters.
- Approximately \$310,000 in lost revenue per year based on the new mandates suspended in the Governor's Proposed Budget.

FINANCE AND GENERAL GOVERNMENT

Deferral of Pre-2004 Mandate Obligations (*Governor's Proposed Budget Summary, Page 79*)

- The Governor's Proposed Budget continues to defer payments for mandate costs incurred prior to 2004-05, which are statutorily required to be completely paid by FY 2020-21.

County Impact

- The State currently owes the County more than \$34 million in pre-2004 mandate payments.

Suspension of State Mandates (*Governor's Proposed Budget Summary, Page 79*)

- The Governor's Proposed Budget Summary reflects the continued suspension of most state mandates not related to law enforcement or property taxes, including three that are related to the Finance and General Government Group.

County Impact

- Unknown negative fiscal impact due to the continued suspension of the mandate reimbursement process. Reimbursement through the mandate reimbursement process totaled \$14,623 in FY 2009-10.

- Unknown negative fiscal impact due to the continued suspension of the Open Meetings Act/Brown Act Reform mandates. Reimbursements totaled \$398,480 in claims filed by the County since 2005.
- Unknown negative fiscal impact due to the continued suspension of the Senior Citizens Property Tax Postponement mandate. Reimbursement totaled \$34,018 in FY 2008-09.

HEALTH AND HUMAN SERVICES

Health Care Reform (*Governor's Proposed Budget Summary, Pages 53-54; LAO's Overview of the Governor's Budget, Pages 32-33*)

- The Administration is committed to implementation of federal health care reform including expanded coverage to the medically indigent population. The Governor's Proposed Budget includes a placeholder for the mandatory population that will be included in the Medicaid expansion, but for the optional population (adults under age 65 up to 138 percent of Federal Poverty Level) the State has chosen to include in the expansion, the Governor's Proposed Budget Summary identifies two mutually exclusive approaches that could be used for this piece.
 - State-Based Expansion: This approach would build upon the existing state-administered Medi-Cal program and managed care delivery system. The State would be responsible for the medically indigent population which is currently the responsibility of counties. The State would offer a standard, statewide benefit package comparable to Medi-Cal but which would exclude long-term care coverage.
 - County-Based Expansion: This approach would build upon the existing Low Income Health Program. Counties would maintain their current responsibility for indigent health care services. Counties would need to meet statewide eligibility requirements and a statewide minimum in health benefits but could offer additional benefits, except for long-term care.
- County Impact
- Under the state-based expansion, counties would assume programmatic and fiscal responsibility for various human services programs, possibly including subsidized child care.
 - Under the county-based expansion, counties would be required to take on additional responsibilities including developing provider networks, setting rates, and processing claims.
 - Implementing federal health care reform will require an assessment by the State of how much funding currently spent by counties should be redirected to pay for the shift in health care costs to the State. The State will also need to consider how these changes would impact remaining county obligations to provide care to those individuals who remain uninsured, as well as public health programs.
 - The State Legislative Analyst Office (LAO) expressed concern that the county-based expansion option would complicate the effort to expand coverage and would be difficult to implement.

Coordinated Care Initiative (CCI) (*Governor's Proposed Budget Summary, Pages 61-62*)

- The Governor's Proposed Budget changes the schedule phasing for beneficiaries enrolling in CCI.

Local Impact

 - Beneficiaries will enroll for their Medi-Cal benefits beginning in September 2013 instead of March 2013. Beneficiaries in San Diego County will phase-in over 12 months.

County Impact

 - The State would be the beneficiary of any savings since counties have a fixed maintenance-of-effort (MOE).
 - Local health plans are expected to refer additional clients to In-Home Supportive Services for assistance to prevent more costly out-of-home placement, requiring increased social work staffing.
 - Implementation of CCI could impact the County's ability to draw down funding for Edgemoor. HHSA is working with the Office of Strategy and Intergovernmental Affairs on potential solutions.

In-Home Supportive Services (IHSS) (*Governor's Proposed Budget Summary, Pages 70-71*)

- The Governor's Proposed Budget proposes:
 - An increase of \$59.1 million to reflect restoration of the 3.6 percent across-the-board reduction to recipients' hours, which is scheduled to sunset on June 30, 2013.
 - A decrease of \$30.2 million associated with the health care certification requirement enacted in FY 2011-12.

- A decrease of \$113.2 million to reflect implementation of the 20 percent across-the-board reduction to recipients' hours on November 1, 2013. A court injunction prevented the State from implementing this reduction. The Proposed Budget assumes successful resolution and implementation in FY 2013-14.

Local Impact

- Recipients' hours will be reduced an average of 14 hours per month (17 hours per month when all the proposed changes go into effect).
- Hours for severely impaired recipients who would otherwise be placed in nursing homes are fully restored.
- It is anticipated that the continued implementation of the health care certification requirements may lead to an increase in the number of cases unable to obtain a health care certificate.

County Impact

- The State will be the beneficiary of these savings since counties have a fixed maintenance-of-effort (MOE).

Edgemoor (*Governor's Proposed Budget Summary, Page 61*)

- The Governor's Proposed Budget continues to include the provider rate reduction enacted through AB 97, the Omnibus Health Trailer Bill enacted in 2012. This reduction will result in State savings of \$488.4 million in FY 2013-14.

County Impact

- This rate reduction is tied up in federal court, but if the State prevails, it would have a negative impact on-going funding at Edgemoor. Final impact will be known when the County receives further information from the State.

CalWORKs (*Governor's Proposed Budget Summary, Pages 66-69, County Welfare Directors' Association, State Budget Update 1, Page 4*)

- The Governor's Proposed Budget proposes an increase of \$142.8 million in State funding for CalWORKs Employment Services to support programmatic changes to the CalWORKs program enacted this fiscal year, including reengagement of those cases that had previously been exempt under the short-term young child exemption.
- The Governor's Proposed Budget also states that the Department of Social Services will convene a stakeholders group to assess the current child care structure and opportunities for streamlining and other improvements.
- The Governor's Proposed Budget includes several other adjustments to the CalWORKs Single Allocation:
 - Decreases the base funding for CalWORKs Administration by \$12.4 million to reflect the projected overall caseload decrease.
 - Includes \$35.9 million for Cal-Learn case management to reflect the full implementation of the program.
 - Net increase of \$35.4 million; includes a decrease of \$26.9 million to the child care base funding but an increase of \$63.3 million for reengagement of the cases described above.

Local Impact

- HHSA has an estimated 3,600 individuals that were previously exempt under the short-term young child exemption.

County Impact

- The Single Allocation fund which includes the County's allocation for the administration of the CalWORKs program, providing Welfare-to-Work and child care service and payments is projected to increase by \$2.5 to \$3.0 million. Final impact will be known when the county allocation letter is received.

Cash Assistance Program for Immigrants (CAPI) (*Governor's Proposed Budget Summary, Pages 69-70*)

- CAPI benefits are equivalent to Supplemental Security Income/State Supplemental Payment (SSI/SSP) benefits, less \$20 per month for individuals and \$20 per month for couples.
- The Governor's Proposed Budget contains a cost-of-living increase adjustment of 1.7 percent to the SSA portion of SSI.

Local Impact

- Beneficiaries will receive an increase of \$20 for individuals and \$30 for couples.

LAND USE AND ENVIRONMENT

- At this time there do not appear to be significant impacts to Land Use and Environment Group departments or issues in the Governor's Proposed Budget.

PUBLIC SAFETY

Public Safety Realignment (*Governor's Proposed Budget Detail, Section 5196*)

- The Governor's Proposed Budget assumes continuing funding for the overall 2011 Realignment program from two state sources – a state special fund sales tax of 1.0625 percent and Vehicle License Fees.

County Impact

- Continues the allocation of sales tax and vehicle license fee funds to the County to support law enforcement activities, juvenile justice programs and court security responsibilities.
- The amount available for Public Safety Realignment /AB 109 responsibilities is dependent on actual State revenues. The San Diego County percentage share in statute today is 7.02 percent of the revenues received in the Community Corrections Subaccount for FY 2013-14 excluding growth funds. Counties are currently working with the Department of Finance on the allocation of any growth funds may be available. In FY 2014-15, total statewide funding for AB 109 activities declines and the current county allocations in statute expire. Revised allocations will be developed by the Department of Finance in consultation with the California State Association of Counties and County Chief Administrative Officers.
- Proposed an amount of \$200,000 to the County for Community Corrections Partnership activities in FY 2013-14.

Community Corrections Performance Incentive Funds (SB 678) (*Governor's Proposed Budget Summary, Appendix 29*)

- The Governor's Proposed Budget reduces funding by \$103 million or 75 percent statewide to a program initiated in 2009 to provide treatment and intervention services to high risk probationers. In previous years, these funds were allocated to counties that successfully reduced the rate at which they send probationers to state prison, sharing a portion of the state savings. The implementation of AB 109 has impacted the calculation of state savings, resulting in the proposed reduction.

County Impact

- Local impact could be a reduction of approximately \$1.9 million currently supporting contracted treatment services to offenders and staff providing support to offenders.

Department of Child Support Services (*Governor's Proposed Budget Detail, Section 5175*)

- The Governor's Proposed Budget restores the county share of child support collections in FY 2013-14 following two years of those funds being redirected from the counties to the State. The share of child support collections directed to counties is estimated to be \$29.8 million in FY 2013-14.

County Impact

- This action preserves the resources that the Department of Child Support Services uses to leverage federal funding and protects an estimated \$2 to \$4 million in total resources for the program.

State Court Impacts (*Governor's Proposed Budget Summary, Page 103*)

- The Governor's Proposed Budget includes a transfer of \$200 million in onetime funding from construction funding to support trial court operations. Certain construction projects will be delayed by up to one year. Other critical projects will continue.

County Impact

- Similar to the reductions the Court faced in FY 2012-13, the immediate and long term impacts to County criminal justice operations, including criminal prosecution, defense and probation operations, are not yet known.

Cal FIRE – Expenditures of Projected SRA Fee Revenue (*Governor's Proposed Budget Summary, Page 86*)

- The Governor's Proposed Budget includes an increase of \$11.7 million in revenues generated as a result of the State Responsibility Area (SRA) Fees to implement SB 1241 (Chapter 311, Statutes of 2012) and engage in other fire prevention activities. SB 1241 requires cities and counties to review and update their general plan's safety element to address fire risks on land classified as SRAs and very high fire hazard severity zones. The bill also required counties to make specified findings before approving a tentative map for an area located in a SRA or a very high fire hazard severity. The budget proposes 65.1 state level positions for fire prevention activities and a Vegetation Management Program.

County Impact

- Unknown